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HOUSE BILL 1646

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**By** Representatives B. Sullivan, Holmquist, Upthegrove, Linville, Blake, Morris, Orcutt, Lovick, Campbell, Chase, Williams, Schindler, Wood, Rodne, Sells, Hinkle and Simpson

Read first time 02/01/2005. Referred to Committee on Technology, Energy & Communications.

1 AN ACT Relating to tax incentives for alternative fuels; reenacting  
2 and amending RCW 82.04.260; adding a new section to chapter 82.08 RCW;  
3 adding a new section to chapter 82.12 RCW; adding a new section to  
4 chapter 84.36 RCW; adding a new section to chapter 82.29A RCW; adding  
5 a new section to chapter 82.04 RCW; creating a new section; providing  
6 an effective date; providing expiration dates; and declaring an  
7 emergency.

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

9 NEW SECTION. **Sec. 1.** A new section is added to chapter 82.08 RCW  
10 to read as follows:

11 (1) The tax levied by RCW 82.08.020 does not apply to sales of  
12 tangible personal property that is used in the construction of a  
13 manufacturing facility or sales of or charges made for labor and  
14 services rendered with respect to the construction of a manufacturing  
15 facility, if the facility is used primarily to manufacture an  
16 alternative fuel.

17 (2) The tax levied by RCW 82.08.020 does not apply to sales of fuel  
18 storage tanks, delivery vehicles, or associated facilities or to sales  
19 of or charges made for labor and services rendered in respect to

1 installing, repairing, cleaning, altering, or improving the storage  
2 tanks, delivery vehicles, and associated facilities, including repair  
3 parts and replacement parts, necessary for fuel storage or distribution  
4 if the fuel distributed by the vehicles is liquefied natural gas  
5 produced from renewable, waste, or stranded sources of methane gas.

6 (3) A person taking an exemption under this section must keep  
7 records necessary for the department to verify eligibility under this  
8 section. The exemption is available only when the buyer provides the  
9 seller with an exemption certificate in a form and manner prescribed by  
10 the department. The seller shall retain a copy of the certificate for  
11 the seller's files.

12 (4) For the purposes of this section, "alternative fuel" has the  
13 same meaning as provided in section 6(1)(a) of this act.

14 (5) This section expires July 1, 2015.

15 NEW SECTION. **Sec. 2.** A new section is added to chapter 82.12 RCW  
16 to read as follows:

17 (1) The provisions of this chapter do not apply to the use of  
18 tangible personal property that is incorporated in the construction of  
19 a manufacturing facility or the use of labor and services rendered with  
20 respect to the construction of a manufacturing facility, if the  
21 facility is used primarily to manufacture an alternative fuel.

22 (2) The provisions of this chapter do not apply to the use of fuel  
23 storage tanks, delivery vehicles, or associated facilities or to sales  
24 of or charges made for labor and services rendered in respect to  
25 installing, repairing, cleaning, altering, or improving the storage  
26 tanks, delivery vehicles, and associated facilities, including repair  
27 parts and replacement parts, necessary for fuel storage or distribution  
28 if the fuel distributed by the vehicles is liquefied natural gas  
29 produced from renewable, waste, or stranded sources of methane gas.

30 (3) A person taking an exemption under this section must keep  
31 records necessary for the department to verify eligibility under this  
32 section. The exemption is available only when the buyer provides the  
33 seller with an exemption certificate in a form and manner prescribed by  
34 the department. The seller shall retain a copy of the certificate for  
35 the seller's files.

36 (4) For the purposes of this section, "alternative fuel" has the  
37 same meaning as provided in section 6(1)(a) of this act.

1 (5) This section expires July 1, 2015.

2 NEW SECTION. **Sec. 3.** A new section is added to chapter 84.36 RCW  
3 to read as follows:

4 (1)(a) All buildings, machinery, equipment, and other personal  
5 property which is used primarily for the manufacture of an alternative  
6 fuel, the land upon which this property is located, and land that is  
7 reasonably necessary in the manufacture of the alternative fuel, which  
8 together comprise a new manufacturing facility or an addition to an  
9 existing manufacturing facility, are exempt from property taxes payable  
10 for the six years beginning with taxes payable the following year from  
11 the date the facility or the addition to the existing facility becomes  
12 operational.

13 (b) For manufacturing facilities which manufacture products in  
14 addition to an alternative fuel, the amount of the property tax  
15 exemption shall be based upon the annual percentage of the total value  
16 of all products manufactured that is the value of the alternative fuel  
17 manufactured.

18 (2) Claims for exemptions authorized by this section shall be filed  
19 with the county assessor on forms prescribed by the department of  
20 revenue and furnished by the assessor. Once filed, the exemption is  
21 valid for six years and shall not be renewed. The assessor shall  
22 verify and approve claims as the assessor determines to be justified  
23 and in accordance with this section. No claims may be approved after  
24 December 31, 2009.

25 (3) The department of revenue may promulgate rules, pursuant to  
26 chapter 34.05 RCW, as necessary to properly administer this section.

27 (4) For the purposes of this section, "alternative fuel" has the  
28 same meaning as provided in section 6(1)(a) of this act.

29 (5) This section expires January 1, 2016.

30 NEW SECTION. **Sec. 4.** A new section is added to chapter 82.29A RCW  
31 to read as follows:

32 (1)(a) All leasehold interests in buildings, machinery, equipment,  
33 and other personal property which is used primarily for the manufacture  
34 of an alternative fuel, the land upon which this property is located,  
35 and land that is reasonably necessary in the manufacture of the  
36 alternative fuel, which together comprise a new manufacturing facility

1 or an addition to an existing manufacturing facility, are exempt from  
2 leasehold taxes for a period of six years from the date on which the  
3 facility or the addition to the existing facility becomes operational.

4 (b) For manufacturing facilities which manufacture products in  
5 addition to an alternative fuel, the amount of the leasehold tax  
6 exemption shall be based upon the annual percentage of the total value  
7 of all products manufactured that is the value of the alternative fuel  
8 manufactured.

9 (2) Claims for exemptions authorized by this section shall be filed  
10 with the department of revenue on forms prescribed by the department of  
11 revenue and furnished by the department of revenue. Once filed, the  
12 exemption is valid for six years and shall not be renewed. The  
13 department of revenue shall verify and approve claims as the department  
14 of revenue determines to be justified and in accordance with this  
15 section. No claims may be approved after December 31, 2009.

16 (3) The department may promulgate rules, pursuant to chapter 34.05  
17 RCW, as necessary to properly administer this section.

18 (4) For the purposes of this section, "alternative fuel" has the  
19 same meaning as provided in section 6(1)(a) of this act.

20 (5) This section expires July 1, 2015.

21 **Sec. 5.** RCW 82.04.260 and 2003 2nd sp.s. c 1 s 4 and 2003 2nd  
22 sp.s. c 1 s 3 are each reenacted and amended to read as follows:

23 (1) Upon every person engaging within this state in the business of  
24 manufacturing:

25 (a) Wheat into flour, barley into pearl barley, soybeans into  
26 soybean oil, canola into canola oil, canola meal, or canola byproducts,  
27 or sunflower seeds into sunflower oil; as to such persons the amount of  
28 tax with respect to such business shall be equal to the value of the  
29 flour, pearl barley, oil, canola meal, or canola byproduct  
30 manufactured, multiplied by the rate of 0.138 percent;

31 (b) Seafood products which remain in a raw, raw frozen, or raw  
32 salted state at the completion of the manufacturing by that person; as  
33 to such persons the amount of tax with respect to such business shall  
34 be equal to the value of the products manufactured, multiplied by the  
35 rate of 0.138 percent;

36 (c) By canning, preserving, freezing, processing, or dehydrating  
37 fresh fruits and vegetables, or selling at wholesale fresh fruits and

1 vegetables canned, preserved, frozen, processed, or dehydrated by the  
2 seller and sold to purchasers who transport in the ordinary course of  
3 business the goods out of this state; as to such persons the amount of  
4 tax with respect to such business shall be equal to the value of the  
5 products canned, preserved, frozen, processed, or dehydrated multiplied  
6 by the rate of 0.138 percent. As proof of sale to a person who  
7 transports in the ordinary course of business goods out of this state,  
8 the seller shall annually provide a statement in a form prescribed by  
9 the department and retain the statement as a business record;

10 (d) Dairy products that as of September 20, 2001, are identified in  
11 21 C.F.R., chapter 1, parts 131, 133, and 135, including byproducts  
12 from the manufacturing of the dairy products such as whey and casein;  
13 or selling the same to purchasers who transport in the ordinary course  
14 of business the goods out of state; as to such persons the tax imposed  
15 shall be equal to the value of the products manufactured multiplied by  
16 the rate of 0.138 percent. As proof of sale to a person who transports  
17 in the ordinary course of business goods out of this state, the seller  
18 shall annually provide a statement in a form prescribed by the  
19 department and retain the statement as a business record;

20 ~~(e) ((Alcohol fuel, biodiesel fuel, or biodiesel feedstock, as  
21 those terms are defined in RCW 82.29A.135; as to such persons the  
22 amount of tax with respect to the business shall be equal to the value  
23 of alcohol fuel, biodiesel fuel, or biodiesel feedstock manufactured,  
24 multiplied by the rate of 0.138 percent. This subsection (1)(e)  
25 expires July 1, 2009; and~~

26 ~~(f) Alcohol fuel or wood biomass fuel, as those terms are defined  
27 in RCW 82.29A.135; as to such persons the amount of tax with respect to  
28 the business shall be equal to the value of alcohol fuel or wood  
29 biomass fuel manufactured, multiplied by the rate of 0.138 percent))~~  
30 Alternative fuel; as to such persons the amount of tax imposed shall be  
31 equal to the value of the products manufactured multiplied by the rate  
32 of 0.138 percent. This subsection (1)(e) expires July 1, 2015; and

33 (f) Natural gas liquefaction equipment, including equipment to  
34 produce compressed natural gas formed by pressurizing and vaporizing  
35 liquefied natural gas; as to such persons the amount of tax imposed  
36 shall be equal to the value of the products manufactured multiplied by  
37 the rate of 0.138 percent. This subsection (1)(f) expires July 1,  
38 2015.

1 (2) Upon every person engaging within this state in the business of  
2 splitting or processing dried peas; as to such persons the amount of  
3 tax with respect to such business shall be equal to the value of the  
4 peas split or processed, multiplied by the rate of 0.138 percent.

5 (3) Upon every nonprofit corporation and nonprofit association  
6 engaging within this state in research and development, as to such  
7 corporations and associations, the amount of tax with respect to such  
8 activities shall be equal to the gross income derived from such  
9 activities multiplied by the rate of 0.484 percent.

10 (4) Upon every person engaging within this state in the business of  
11 slaughtering, breaking and/or processing perishable meat products  
12 and/or selling the same at wholesale only and not at retail; as to such  
13 persons the tax imposed shall be equal to the gross proceeds derived  
14 from such sales multiplied by the rate of 0.138 percent.

15 (5) Upon every person engaging within this state in the business of  
16 making sales, at retail or wholesale, of nuclear fuel assemblies  
17 manufactured by that person, as to such persons the amount of tax with  
18 respect to such business shall be equal to the gross proceeds of sales  
19 of the assemblies multiplied by the rate of 0.275 percent.

20 (6) Upon every person engaging within this state in the business of  
21 manufacturing nuclear fuel assemblies, as to such persons the amount of  
22 tax with respect to such business shall be equal to the value of the  
23 products manufactured multiplied by the rate of 0.275 percent.

24 (7) Upon every person engaging within this state in the business of  
25 acting as a travel agent or tour operator; as to such persons the  
26 amount of the tax with respect to such activities shall be equal to the  
27 gross income derived from such activities multiplied by the rate of  
28 0.275 percent.

29 (8) Upon every person engaging within this state in business as an  
30 international steamship agent, international customs house broker,  
31 international freight forwarder, vessel and/or cargo charter broker in  
32 foreign commerce, and/or international air cargo agent; as to such  
33 persons the amount of the tax with respect to only international  
34 activities shall be equal to the gross income derived from such  
35 activities multiplied by the rate of 0.275 percent.

36 (9) Upon every person engaging within this state in the business of  
37 stevedoring and associated activities pertinent to the movement of  
38 goods and commodities in waterborne interstate or foreign commerce; as

1 to such persons the amount of tax with respect to such business shall  
2 be equal to the gross proceeds derived from such activities multiplied  
3 by the rate of 0.275 percent. Persons subject to taxation under this  
4 subsection shall be exempt from payment of taxes imposed by chapter  
5 82.16 RCW for that portion of their business subject to taxation under  
6 this subsection. Stevedoring and associated activities pertinent to  
7 the conduct of goods and commodities in waterborne interstate or  
8 foreign commerce are defined as all activities of a labor, service or  
9 transportation nature whereby cargo may be loaded or unloaded to or  
10 from vessels or barges, passing over, onto or under a wharf, pier, or  
11 similar structure; cargo may be moved to a warehouse or similar holding  
12 or storage yard or area to await further movement in import or export  
13 or may move to a consolidation freight station and be stuffed,  
14 unstuffed, containerized, separated or otherwise segregated or  
15 aggregated for delivery or loaded on any mode of transportation for  
16 delivery to its consignee. Specific activities included in this  
17 definition are: Wharfage, handling, loading, unloading, moving of  
18 cargo to a convenient place of delivery to the consignee or a  
19 convenient place for further movement to export mode; documentation  
20 services in connection with the receipt, delivery, checking, care,  
21 custody and control of cargo required in the transfer of cargo;  
22 imported automobile handling prior to delivery to consignee; terminal  
23 stevedoring and incidental vessel services, including but not limited  
24 to plugging and unplugging refrigerator service to containers,  
25 trailers, and other refrigerated cargo receptacles, and securing ship  
26 hatch covers.

27 (10) Upon every person engaging within this state in the business  
28 of disposing of low-level waste, as defined in RCW 43.145.010; as to  
29 such persons the amount of the tax with respect to such business shall  
30 be equal to the gross income of the business, excluding any fees  
31 imposed under chapter 43.200 RCW, multiplied by the rate of 3.3  
32 percent.

33 If the gross income of the taxpayer is attributable to activities  
34 both within and without this state, the gross income attributable to  
35 this state shall be determined in accordance with the methods of  
36 apportionment required under RCW 82.04.460.

37 (11) Upon every person engaging within this state as an insurance  
38 agent, insurance broker, or insurance solicitor licensed under chapter

1 48.17 RCW; as to such persons, the amount of the tax with respect to  
2 such licensed activities shall be equal to the gross income of such  
3 business multiplied by the rate of 0.484 percent.

4 (12) Upon every person engaging within this state in business as a  
5 hospital, as defined in chapter 70.41 RCW, that is operated as a  
6 nonprofit corporation or by the state or any of its political  
7 subdivisions, as to such persons, the amount of tax with respect to  
8 such activities shall be equal to the gross income of the business  
9 multiplied by the rate of 0.75 percent through June 30, 1995, and 1.5  
10 percent thereafter. The moneys collected under this subsection shall  
11 be deposited in the health services account created under RCW  
12 43.72.900.

13 (13)(a) Beginning October 1, 2005, upon every person engaging  
14 within this state in the business of manufacturing commercial  
15 airplanes, or components of such airplanes, as to such persons the  
16 amount of tax with respect to such business shall, in the case of  
17 manufacturers, be equal to the value of the product manufactured, or in  
18 the case of processors for hire, be equal to the gross income of the  
19 business, multiplied by the rate of:

20 (i) 0.4235 percent from October 1, 2005, through the later of June  
21 30, 2007, or the day preceding the date final assembly of a  
22 superefficient airplane begins in Washington state, as determined under  
23 RCW 82.32.550; and

24 (ii) 0.2904 percent beginning on the later of July 1, 2007, or the  
25 date final assembly of a superefficient airplane begins in Washington  
26 state, as determined under RCW 82.32.550.

27 (b) Beginning October 1, 2005, upon every person engaging within  
28 this state in the business of making sales, at retail or wholesale, of  
29 commercial airplanes, or components of such airplanes, manufactured by  
30 that person, as to such persons the amount of tax with respect to such  
31 business shall be equal to the gross proceeds of sales of the airplanes  
32 or components multiplied by the rate of:

33 (i) 0.4235 percent from October 1, 2005, through the later of June  
34 30, 2007, or the day preceding the date final assembly of a  
35 superefficient airplane begins in Washington state, as determined under  
36 RCW 82.32.550; and

37 (ii) 0.2904 percent beginning on the later of July 1, 2007, or the

1 date final assembly of a superefficient airplane begins in Washington  
2 state, as determined under RCW 82.32.550.

3 (c) For the purposes of this subsection (13), "commercial  
4 airplane," "component," and "final assembly of a superefficient  
5 airplane" have the meanings given in RCW 82.32.550.

6 (d) In addition to all other requirements under this title, a  
7 person eligible for the tax rate under this subsection (13) must report  
8 as required under RCW 82.32.545.

9 (e) This subsection (13) does not apply after the earlier of: July  
10 1, 2024; or December 31, 2007, if assembly of a superefficient airplane  
11 does not begin by December 31, 2007, as determined under RCW 82.32.550.

12 NEW SECTION. **Sec. 6.** A new section is added to chapter 82.04 RCW,  
13 to be codified between RCW 82.04.010 and 82.04.220, to read as follows:

14 (1)(a) Alternative fuel means:

15 (i) Alcohol fuel, biodiesel fuel, biodiesel feedstock, or wood  
16 biomass fuel, as those terms are defined in RCW 82.29A.135; or

17 (ii)(A) Liquefied natural gas, if the gas is manufactured from  
18 renewable, waste, or stranded sources of methane gas;

19 (B) Compressed natural gas, if the gas is derived from liquefied  
20 natural gas that is manufactured from renewable, waste, or stranded  
21 sources of methane gas; or

22 (C) Methane, if the methane is: (I) Obtained from the anaerobic  
23 digestion of material, including but not limited to, agricultural waste  
24 or sewage; and (II) subsequently used to manufacture liquefied natural  
25 gas.

26 (b) "Anaerobic digestion" means a biological process that enables  
27 organic matter to be broken down by bacteria in the absence of air to  
28 produce a gas principally composed of methane.

29 (2)(a) Subsection (1)(a)(i) of this section expires July 1, 2009.

30 (b) This section expires July 1, 2015.

31 NEW SECTION. **Sec. 7.** Section 3 of this act applies to taxes  
32 levied for collection in 2006 and thereafter.

33 NEW SECTION. **Sec. 8.** This act is necessary for the immediate  
34 preservation of the public peace, health, or safety, or support of the

1 state government and its existing public institutions, and takes effect  
2 July 1, 2005.

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